

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2967-01
Bill No.: HB 1156
Subject: Health Care; Health Care Professionals; Medicaid; Nursing and Boarding Homes
Type: #Corrected
Date: February 19, 2002
#To correct Oversight assumptions

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
#General Revenue	(\$320,879)	(\$385,055)	(\$385,055)
Total Estimated Net Effect on <u>All</u> State Funds	(\$320,879)	(\$385,055)	(\$385,055)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Federal*	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

*Revenues and Expenditures would net to \$0.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Health and Senior Services** and the Department of **Mental Health** assume this proposal would not fiscally impact their agencies.

Officials from the **Department of Social Services (DOS) - Division of Medical Services (DMS)** state that this proposal would result in an increased cost to the Medicaid program. DMS states it would also result in an increased number of change of ownerships, over the current level, because owners of nursing facilities would change ownership in order to receive an increased reimbursement rate.

The DMS analyzed the change of ownerships (CHOWs) from 1998 - 2001. Based on the 1998 - 2000 data (2001 was excluded because the data was incomplete at the time of the analysis), the DMS calculated the estimated impact, given the current level of CHOWs, by multiplying the maximum rate adjustment the facility could receive by the facility's estimated Medicaid days for FY 03. DMS assumed a facility could only receive a rate adjustment if its current rate was less than the industry average rate and its cost per patient day as determined from the cost report subsequent to the CHOW. DMS calculated the maximum rate adjustment for each eligible facility by determining the difference between the facility's current rate and the lesser of the industry average rate or the facility's cost per patient day.

DMS stated the average percent of nursing facilities that qualified for a rate adjustment, the average percent of paid Medicaid days applicable to the increase, and the average rate increase allowed was calculated. DMS applied these figures to the whole nursing facility population, assuming that nursing facilities would change ownership to receive increased reimbursement rates.

DMS estimates in FY 2003 approximately 462 nursing facilities with 9,200,034 total days have prospective rates. DMS further estimates 27.92 percent of these days qualify for the rate adjustment. DMS estimates a \$6.10 per day average rate adjustment based on historical data. Therefore, DMS assumes an estimated impact of this proposal to be \$15,666,555 ($9,200,034 \times 27.92\% \times \6.10). DMS estimates approximately 1% increases per fiscal year for facility bed days, therefore fiscal impact for FY 2004 and FY 2005 are \$15,823,891 and \$15,982,131, respectively.

DMS notes federal regulations have limitations on payments relating to changes in ownership. 42 CFR Chapter IV (10-01-00 Edition), 447.253, states the following: '(2) ...the State's methods and standards must provide that the valuation of capital assets for purposes of determining payment rates for Nfs and ICF/MRs is not to increase...solely as a result of a change in ownership, by more than the lesser of – (i) One-half of the percentage increase...in the Dodge

ASSUMPTION (continued)

construction index applied in the aggregate with respect to those facilities that have undergone a change of ownership during the fiscal year; or (ii) One-half of the percentage increase...in the Consumer Price Index for all Urban Consumers (CPS-U)...applied in the aggregate with respect to those facilities that have undergone a change ownership during the fiscal year.” This federal regulation limitation was not factored into DMS fiscal impact and the results are unknown.

Oversight assumes the federal limitations could reduce the fiscal impact stated by DOS. Therefore, Oversight assumes the fiscal impact will fall within the DOS assumed ranges.

#DMS historical data shows that the following number of nursing facilities changed ownership: FY 98–51; FY 99–24; and FY00–25. Of these change in ownerships, the following number of facilities would have qualified for a rate adjustment according to this proposal: FY 98–14; FY 99–5; and FY 00–4. This is an average of 8 change in ownerships per year that would qualify for a rate adjustment. DMS data shows that the average number of days per change in ownership is 20,352 days and the average rate adjustment is \$6.10 per day. Therefore, **Oversight** estimates costs of change in ownership to be \$993,178 (8 change in ownerships x 20,352 days x \$6.10 rate adjustment per day). **Oversight** recognizes that more nursing facilities would qualify for a rate adjustment should they choose to change ownership, however **Oversight** will use historical data to estimate the costs of change in ownership of nursing facilities.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>#Cost</u> - Department of Social Services			
Medical Assistance Payments	<u>(\$320,879)</u>	<u>(\$385,055)</u>	<u>(\$385,055)</u>
#ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$320,879)</u>	<u>(\$385,055)</u>	<u>(\$385,055)</u>
FEDERAL FUND			
<u>#Income</u> - Department of Social Services			
Medical Reimbursements	\$506,769	\$608,123	\$608,123
<u>#Cost</u> - Department of Social Services			
Medical assistance payments	<u>(\$506,769)</u>	<u>(\$608,123)</u>	<u>(\$608,123)</u>
ESTIMATED NET EFFECT ON FEDERAL FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government

FY 2003
(10 Mo.)

FY 2004

FY 2005

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small nursing facilities that change ownership would be expected to receive more reimbursement.

DESCRIPTION

This proposal directs the Division of Medical Services to promulgate rules that include specific provisions relating to an adjustment in the Medicaid reimbursement rate for certain long-term care facilities that change ownership.

The proposal requires that these rules allow requests for adjustments in prospective reimbursement rates to be made by facilities that have had a change in ownership within the last three years. These requests must be made in writing, specifically identify the condition for which the adjustment is sought, and provide documentation for the amount of the rate adjustment that is sought. In addition, the rules must also provide that the division will consider a request withdrawn if it asks for additional information and the facility fails to comply within 90 days of the request.

The proposal also requires the rules to allow the rate adjustment based on a change in ownership when the following conditions are met: the principal of the new company was not involved in the previous ownership of the facility; the facility demonstrates that costs have increased because of a change in ownership and that these increased costs contributed to improved quality of care, life, or environment for residents; and the facility demonstrates that the current reimbursement is inadequate to meet the costs of providing improved care and environment and enhanced quality of life.

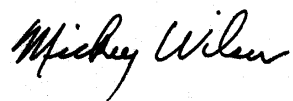
The proposal requires the rules to specify that the division will review the applications on a case-by-case basis and consider improved Division of Aging surveys, costs prior to and after an ownership change, and licensure applications in making its determination. The proposal also specifies the methods which must be stated in the rules for calculating the rate increase.

DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Mental Health
Department of Health and Senior Services
Department of Social Services
Division of Medical Services

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Acting Director
February 19, 2002